

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Mackinac Island	County Mackinac
Audit Date 3/31/05	Opinion Date 7/14/05	Date Accountant Report Submitted to State: 9/30/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised
2. We are certified public accountants registered to practice in Michigan

We further affirm the following "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P A 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P A 2 of 1968, as amended)
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements (P A 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132])
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P A 266 of 1995 (MCL 129.241)
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P A 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations			✓
Reports on individual federal financial assistance programs (program audits)			✓
Single Audit Reports (ASLGU)			✓

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 902 S. Huron Street, PO Box 250		City Cheboygan	State MI
Accountant Signature <i>Annette Eustice, CPA, CGFM</i>		ZIP 49721	Date 9-28-05

**CITY OF MACKINAC ISLAND
MACKINAC ISLAND, MICHIGAN**

FINANCIAL STATEMENTS

MARCH 31, 2005

CITY OF MACKINAC ISLAND

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CITY OF MACKINAC ISLAND

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INDEPENDENT AUDITORS' REPORT

July 14, 2005

Members of the City Council
City of Mackinac Island
Mackinac Island, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***City of Mackinac Island***, (the "City"), as of and for the year ended March 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. As described in Note 3G the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended and interpreted, as of April 1, 2004.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

Management's Discussion and Analysis

As management of the **City of Mackinac Island**, (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended March 31, 2005.

Financial Highlights

- The total assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$16,460,849 (*net assets*). Of this amount, \$891,912 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$1,112,421.
- The City repaid \$223,158 of long-term debt during the current fiscal year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$109,732, or 6% of total General Fund expenditures and transfers out.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges for services (*business-type activities*). The governmental activities of the City include general government, public safety, public works, highways and streets, health and welfare, and recreation and culture. The business-type activities of the City include water and sewer and landfill.

The government-wide financial statements can be found on pages 10-11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 14 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be the major fund. Data from the other 13 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund budget.

The basic governmental funds financial statements can be found on pages 12-16 of this report.

Proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer and landfill operations.

The basic proprietary fund financial statements can be found on pages 17-20 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 21 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-36 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes. Combining and individual fund statements and schedules can be found on pages 37-47 of this report.

Government-wide Financial Analysis - Primary Government

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$16,460,849 at the close of fiscal 2005.

A large portion of the City's net assets (90.6%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, water and sewer systems, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (3.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (5.5%) may be used to meet the government's ongoing obligations to citizens and creditors.

[Because this is the first year of implementation of Government Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.]

City of Mackinac Island Condensed Statement of Net Assets March 31, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and other assets	\$ 969,701	\$ 778,621	\$ 1,748,322
Capital assets, net of accumulated depreciation	<u>5,561,626</u>	<u>13,225,498</u>	<u>18,787,124</u>
Total assets	<u>6,531,327</u>	<u>14,004,119</u>	<u>20,535,446</u>
Liabilities			
Current and other liabilities	154,749	308,461	463,210
Long-term debt, net of current portion	<u>651,388</u>	<u>2,960,000</u>	<u>3,611,388</u>
Total liabilities	<u>806,137</u>	<u>3,268,461</u>	<u>4,074,598</u>

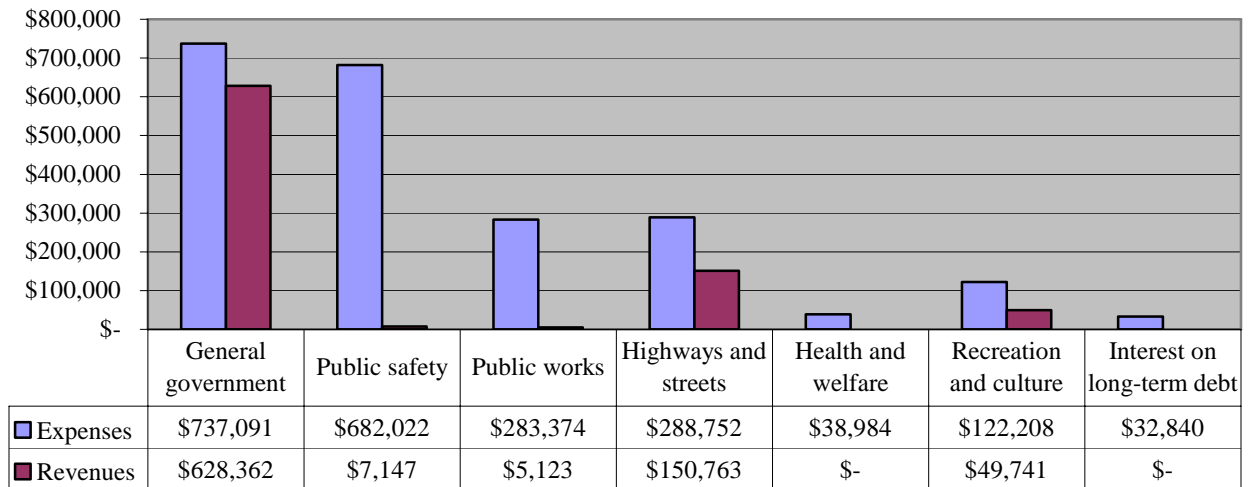
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net assets			
Invested in capital assets, net of related debt	\$ 4,789,143	\$ 10,130,498	\$ 14,919,641
Restricted	299,296	350,000	649,296
Unrestricted	<u>636,752</u>	<u>255,160</u>	<u>891,912</u>
Total net assets	<u>\$ 5,725,191</u>	<u>\$ 10,735,658</u>	<u>\$ 16,460,849</u>

**City of Mackinac Island
Condensed Statement of Changes in Net Assets
For the Year Ended March 31, 2005**

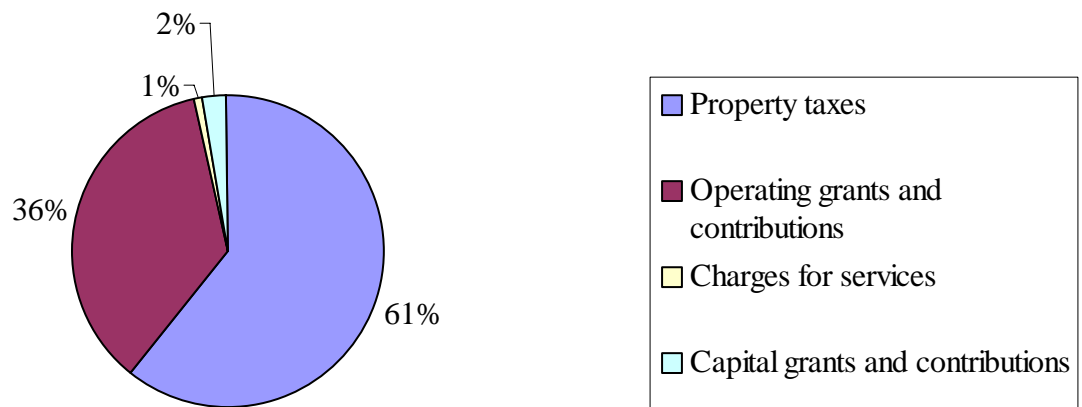
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Revenues			
Program revenues			
Charges for services	\$ 22,920	\$ 1,271,329	\$ 1,294,249
Operating grants and contributions	767,133	-	767,133
Capital grants and contributions	51,083	-	51,083
General revenues			
Property taxes	1,295,806	-	1,295,806
Other	<u>-</u>	<u>44,640</u>	<u>44,640</u>
Total revenues	<u>2,136,942</u>	<u>1,315,969</u>	<u>3,452,911</u>
Expenses			
General government	737,091	-	737,091
Public safety	682,022	-	682,022
Public works	283,374	-	283,374
Highways and streets	288,752	-	288,752
Health and welfare	38,984	-	38,984
Recreation and culture	122,208	-	122,208
Interest on long-term debt	32,840	-	32,840
DPW	<u>-</u>	<u>2,380,062</u>	<u>2,380,062</u>
Total expenses	<u>2,185,271</u>	<u>2,380,062</u>	<u>4,565,333</u>
Change in net assets	(48,329)	(1,064,093)	(1,112,422)
Net assets – beginning of year, as restated	<u>5,773,519</u>	<u>11,799,751</u>	<u>17,573,270</u>
Net assets – end of year	<u>\$ 5,725,190</u>	<u>\$ 10,735,658</u>	<u>\$ 16,460,848</u>

Governmental activities. Governmental activities decreased the City's net assets by \$48,328.

Expenses and Program Revenues - Governmental Activities

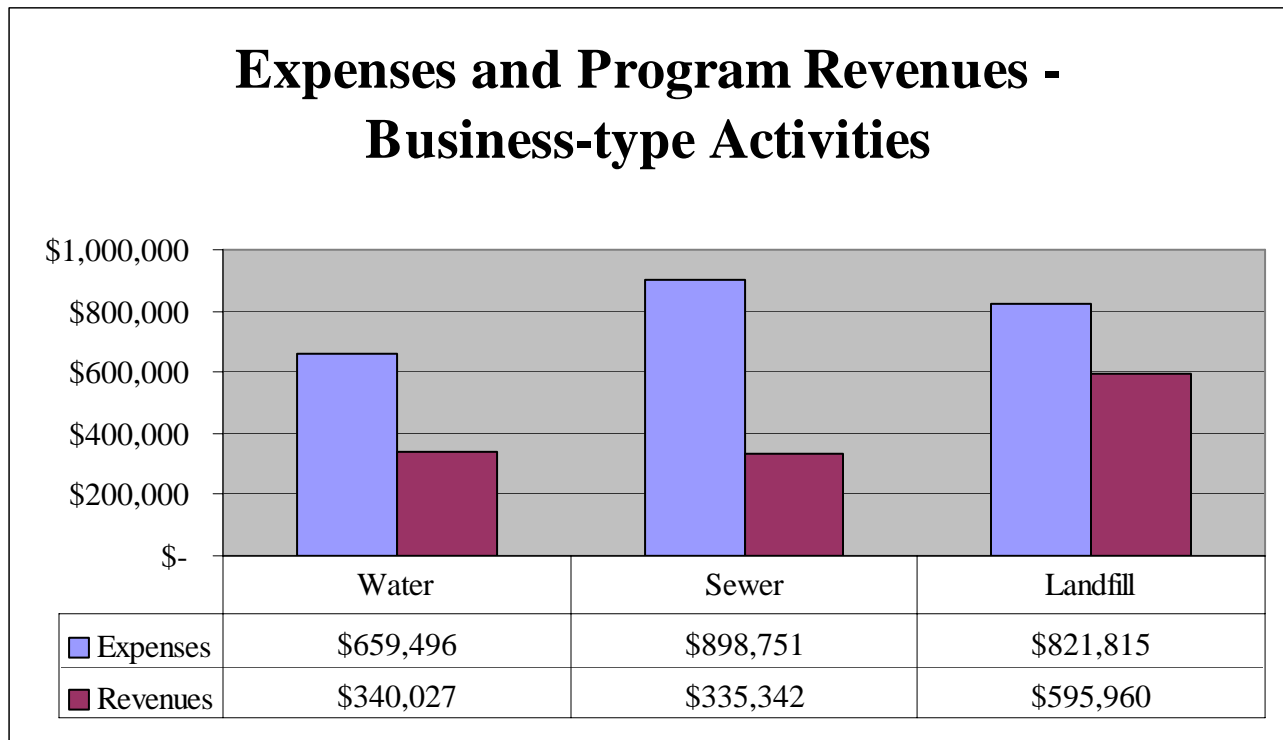


Revenues by Source - Governmental Activities



Business-type activities. Business-type activities decreased the City's net assets by \$1,064,093.

This decrease is mainly attributable to an increase in expenditures and no increase in user fees in recent years.



Substantially all revenues for the business-type activities resulted from charge for services.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the fiscal year 2005, the City's governmental funds reported combined ending fund balances of \$924,042, a decrease of \$137,125. *Unreserved fund balance* of \$624,746 is available for spending at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed.

Proprietary funds. The City's *proprietary funds* provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the DPW at the end of the year amounted to \$255,160. The DPW had a decrease in net assets for the year of \$1,064,093. Factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

Budgetary Highlights

General Fund. During the year, General Fund revenues and expenditures exceeded budgeted amounts. The end result was an increase of fund balance of \$9,244 compared to a budgeted increase of zero.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of March 31, 2005, amounted to \$18,787,124 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, infrastructure, water and sewer system, vehicles and equipment.

Additional information on the City's capital assets can be found in Note 3C on pages 29-30 of this report.

The City did not have any major capital asset acquisitions during the current year.

Long-term debt. At March 31, 2005, the City had total debt outstanding of \$3,848,218. Of this amount, \$733,953 is comprised of debt backed by the full faith and credit of the City. The remainder of the City's bonded debt represents bonds secured solely by specified revenue sources.

Additional information on the City's long-term debt can be found in Note 3F on pages 32-34 of this report.

Economic Factors and Fiscal 2005-2006 Budgets and Rates

The following factors were considered in preparing the City's budget for the 2005-06 fiscal year:

- The taxable value of the City increased 4.16% resulting in a reduction of the taxes levied by the General Fund.
- Sewer rates were increased 50% effective June 1, 2005 and will be increased 50% on June 1, 2006 and 25% on June 1, 2007 to offset previous operating losses.
- Franchise fees were budgeted for a 25% increase based upon tourism rebounding in the summer of 2005.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Mayor's assistant, PO Box 455, Mackinac Island, Michigan 49757.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MACKINAC ISLAND

STATEMENT OF NET ASSETS

MARCH 31, 2005

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 551,439	\$ -	\$ 551,439
Investments	30,000	-	30,000
Receivables, net	125,864	393,796	519,660
Internal balances	9,660	(9,660)	-
Restricted cash	127,738	232,694	360,432
Restricted investments	125,000	161,791	286,791
Capital assets not being depreciated	18,180	-	18,180
Capital assets being depreciated, net	5,543,446	13,225,498	18,768,944
Total assets	6,531,327	14,004,119	20,535,446
Liabilities			
Accounts payable and accrued expenses	52,919	173,461	226,380
Long-term liabilities			
Due within one year	101,830	135,000	236,830
Due in more than one year	651,388	2,960,000	3,611,388
Total liabilities	806,137	3,268,461	4,074,598
Net assets			
Invested in capital assets, net of related debt	4,827,673	10,130,498	14,958,171
Restricted			
Perpetual care	93,425	-	93,425
Capital outlay	91,592	-	91,592
Debt service	114,279	350,000	464,279
Unrestricted	598,221	255,160	853,381
Total net assets	\$ 5,725,190	\$ 10,735,658	\$ 16,460,848

The accompanying notes are an integral part of these financial statements.

CITY OF MACKINAC ISLAND

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MARCH 31, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 737,091	\$ 12,676	\$ 564,603	\$ 51,083
Public safety	682,022	-	7,147	-
Public works	283,374	2,600	2,523	-
Highways and streets	288,752	-	150,763	-
Health and welfare	38,984	-	-	-
Recreation and culture	122,208	7,644	42,097	-
Interest on long-term debt	32,840	-	-	-
Total governmental activities	2,185,271	22,920	767,133	51,083
Business-type activities				
Department of Public Works				
Water	659,496	340,027	-	-
Sewer	898,751	335,342	-	-
Landfill	821,815	595,960	-	-
Total business-type activities	2,380,062	1,271,329	-	-
Total	\$ 4,565,333	\$ 1,294,249	\$ 767,133	\$ 51,083

General revenues

Property taxes
Other

Total general revenues

Change in net assets

Net assets, beginning of year,
as restated (Note 3G)

Net assets, end of year

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (108,729)	\$ -	\$ (108,729)
(674,875)	-	(674,875)
(278,251)	-	(278,251)
(137,989)	-	(137,989)
(38,984)	-	(38,984)
(72,467)	-	(72,467)
(32,840)	-	(32,840)
(1,344,135)	-	(1,344,135)
-	(319,469)	(319,469)
-	(563,409)	(563,409)
-	(225,855)	(225,855)
-	(1,108,733)	(1,108,733)
(1,344,135)	(1,108,733)	(2,452,868)
1,295,806	-	1,295,806
-	44,640	44,640
1,295,806	44,640	1,340,446
(48,329)	(1,064,093)	(1,112,422)
5,773,519	11,799,751	17,573,270
\$ 5,725,190	\$ 10,735,658	\$ 16,460,848

FUND FINANCIAL STATEMENTS

CITY OF MACKINAC ISLAND

BALANCE SHEET GOVERNMENTAL FUNDS

MARCH 31, 2005

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 33,987	\$ 517,452	\$ 551,439
Investments	-	30,000	30,000
Accounts receivable	6,180	-	6,180
Taxes receivable	99,481	5,240	104,721
Due from other funds	18,660	1,262	19,922
Due from other governmental units	6,083	8,880	14,963
Restricted cash and cash equivalents	-	127,738	127,738
Restricted investments	-	125,000	125,000
Total assets	\$ 164,391	\$ 815,572	\$ 979,963
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 37,325	\$ -	\$ 37,325
Accrued expenses	7,073	1,262	8,335
Due to other funds	10,262	-	10,262
Total liabilities	54,660	1,262	55,922
Fund balances			
Reserved			
Capital outlay	-	91,592	91,592
Debt service	-	114,279	114,279
Perpetual care	-	93,425	93,425
Unreserved			
Designated			
Subsequent years expenditures	7,601	-	7,601
Capital outlay	-	485,682	485,682
Undesignated	102,130	-	102,130
Undesignated, reported in nonmajor			
Special revenue funds	-	15,280	15,280
Capital project funds	-	14,052	14,052
Total fund balances	109,731	814,310	924,041
Total liabilities and fund balances	\$ 164,391	\$ 815,572	\$ 979,963

Continued...

CITY OF MACKINAC ISLAND

BALANCE SHEET GOVERNMENTAL FUNDS

MARCH 31, 2005

Reconciliation of fund balances on the balance sheet for governmental activities to the statement of net assets

Fund balances - total governmental funds	\$	924,041
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Amounts reported for governmental activities in the statement of net assets are different

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.

Add: capital assets	7,107,366
Subtract: accumulated depreciation	(1,545,740)

Certain liabilities are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds and notes payable	(733,953)
Subtract: compensated absences	(19,265)
Subtract: accrued interest on long-term liabilities	(7,259)

Net assets of governmental activities	\$	<u>5,725,190</u>
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Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF MACKINAC ISLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED MARCH 31, 2005

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 1,280,901	\$ 60,782	\$ 1,341,683
Licenses and permits	365,159	-	365,159
Federal revenue	-	51,283	51,283
State revenue	54,833	154,206	209,039
Charges for services	-	22,920	22,920
Fines and forfeits	1,295	6,294	7,589
Rents and royalties	26,260	-	26,260
Interest and dividends	19,351	19,807	39,158
Contributions	5,122	31,660	36,782
Miscellaneous	44,827	2,250	47,077
Total revenues	1,797,748	349,202	2,146,950
Expenditures			
Legislative	14,120	-	14,120
General government	436,722	13,609	450,331
Public safety	628,136	-	628,136
Public works	172,817	364,023	536,840
Culture and recreation	55,977	53,357	109,334
Other functions	209,515	-	209,515
Capital improvements	-	75,681	75,681
Debt service			
Principal payments	-	223,158	223,158
Interest and paying agent fees	-	36,961	36,961
Total expenditures	1,517,287	766,789	2,284,076
Revenues over (under) expenditures	280,461	(417,587)	(137,126)
Other financing sources (uses)			
Transfers in	2,213	391,520	393,733
Transfers out	(273,431)	(120,302)	(393,733)
Total other financing (uses) sources	(271,218)	271,218	-
Net change in fund balance	9,243	(146,369)	(137,126)
Fund balances, beginning of year	100,488	960,679	1,061,167
Fund balances, end of year	\$ 109,731	\$ 814,310	\$ 924,041

Continued...

CITY OF MACKINAC ISLAND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED MARCH 31, 2005

**Reconciliation of statement of revenues, expenditures and changes in fund balances
of governmental funds to statement of activities**

Net change in fund balances - total governmental funds \$ (137,126)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay capitalized during current year	58,083
Subtract: depreciation expense	(196,297)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets .

Add: principal payments on long-term liabilities	223,158
--	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: decrease in accrued interest on bonds	4,121
Subtract: increase in the accrual of compensated absences	(268)

Change in net assets of governmental activities	<u>\$ (48,329)</u>
--	---------------------------

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF MACKINAC ISLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
Taxes	\$ 1,224,440	\$ 1,182,440	\$ 1,280,901	\$ 98,461
Licenses and permits	357,945	356,945	365,159	8,214
State revenues	43,200	43,200	54,833	11,633
Fines and forfeits	46,400	46,400	1,295	(45,105)
Rents and royalties	28,000	28,000	26,260	(1,740)
Interest and dividends	12,000	12,000	19,351	7,351
Contributions	15,000	15,000	5,122	(9,878)
Miscellaneous	23,900	23,900	44,827	20,927
Total revenues	1,750,885	1,707,885	1,797,748	89,863
Expenditures				
Legislative	40,950	40,950	14,120	26,830
General government	341,092	341,092	436,722	(95,630)
Public safety	566,705	557,705	628,136	(70,431)
Public works	202,300	211,300	172,817	38,483
Culture and recreation	81,021	81,021	55,977	25,044
Other functions	220,592	220,592	209,515	11,077
Debt service				
Principal	42,000	-	-	-
Total expenditures	1,494,660	1,452,660	1,517,287	(64,627)
Revenues over expenditures	256,225	255,225	280,461	25,236
Other financing sources (uses)				
Transfers in	-	-	2,213	2,213
Transfers out	(256,225)	(255,225)	(273,431)	(18,206)
Total other financing	(256,225)	(255,225)	(271,218)	(15,993)
Net change in fund balance	-	-	9,243	9,243
Fund balances, beginning of year	100,488	100,488	100,488	-
Fund balances, end of year	\$ 100,488	\$ 100,488	\$ 109,731	\$ 9,243

The accompanying notes are an integral part of these financial statements.

CITY OF MACKINAC ISLAND

STATEMENT OF NET ASSETS PROPRIETARY FUND

MARCH 31, 2005

Assets

Current assets

Accounts receivable	\$ 393,796
Due from other funds	9,000
	<hr/>

Total current assets **402,796**

Restricted cash	232,694
Restricted investments	161,791
Property, plant and equipment, net of accumulated depreciation	13,225,498
	<hr/>

Total assets **14,022,779**

Liabilities

Current liabilities

Accounts payable	163,193
Accrued expenses	10,268
Due to other funds	18,660
Bonds payable	135,000
	<hr/>

Total current liabilities **327,121**

Bonds Payable (net of current portion) **2,960,000**

Total liabilities **3,287,121**

Net Assets

Invested in capital assets, net of related debt	10,130,498
Restricted	
Debt service	350,000
Unrestricted	255,160
	<hr/>

Total net assets **\$ 10,735,658**

The accompanying notes are an integral part of these financial statements.

CITY OF MACKINAC ISLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - PROPRIETARY FUND

FOR THE YEAR ENDED MARCH 31, 2005

Operating revenues	
Charges for services	\$ 681,265
Charges for services pledged as security for revenue bonds	611,965
	<u>611,965</u>
Total operating revenues	<u>1,293,230</u>
Operating expenses	
Landfill	821,815
Sewer	750,656
Water	637,367
	<u>637,367</u>
Total operating expenses	<u>2,209,838</u>
Operating loss	<u>(916,608)</u>
Non-operating revenues (expenses)	
Interest revenue	14,875
Interest expense	(170,224)
Other revenue	7,864
	<u>7,864</u>
Total non-operating expenses	<u>(147,485)</u>
Change in net assets	(1,064,093)
Net assets, beginning of year, as restated	<u>11,799,751</u>
Net assets, end of year	<u><u>\$ 10,735,658</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MACKINAC ISLAND

STATEMENT OF CASH FLOWS PROPRIETARY FUND

FOR THE YEAR ENDED MARCH 31, 2005

<hr/>	
Cash flows from operating activities	
Cash collected from customers	\$ 1,351,198
Cash paid for employee wages and benefits	(584,741)
Cash paid for other operating and administrative expenses	(989,373)
	<hr/>
Net cash used in operating activities	(222,916)
	<hr/>
Cash flows from non-capital financing activities	
Other revenue	7,864
	<hr/>
Cash flows from capital and related financing activities	
Purchase of property, plant and equipment	(99,340)
Principal paid on bonds	(60,000)
Interest expense	(171,874)
	<hr/>
Net cash used in capital and related financing activities	(331,214)
	<hr/>
Cash flows from investing activities	
Interest earnings	14,875
	<hr/>
Net decrease in cash and cash equivalents	(531,391)
	<hr/>
Cash and cash equivalents, beginning of year	764,085
	<hr/>
Cash and cash equivalents, including restricted, end of year	232,694
	<hr/>
Restricted cash, end of year	232,694
	<hr/>
Cash and cash equivalents, end of year	\$ -
	<hr/>

Continued...

CITY OF MACKINAC ISLAND

STATEMENT OF CASH FLOWS PROPRIETARY FUND

FOR THE YEAR ENDED MARCH 31, 2005

**Reconciliation of operating loss to
net cash provided by (used in) operating activities**

Cash flows from operating activities

Operating loss	\$ (916,608)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities	
Depreciation	644,868
Changes in operating assets and liabilities which provided (used) cash	
Accounts receivable	57,968
Accounts payable	(11,010)
Accrued expenses	(16,794)
Due to other funds	18,660

Net cash used in operating activities	<u>\$ (222,916)</u>
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Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF MACKINAC ISLAND
STATEMENT OF FIDUCIARY NET ASSETS

MARCH 31, 2005

Assets	
Cash and cash equivalents	<u><u>\$ 3,190</u></u>
Liabilities	
Accounts payable	<u><u>\$ 3,190</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the *City of Mackinac Island* (the “City”). The component unit discussed below is included in the City’s reporting entity because of the significance of its operational or financial relationship with the City.

Fire Hall Building Authority - The Fire Hall Building Authority is a blended component unit of the City of Mackinac Island.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from the accompanying financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements. The fund financial statements provide information about the City’s funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The *General Fund* is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

The City reports the following major enterprise funds:

The *Department of Public Works* (the “DPW”) accounts for the activities of the City’s water distribution, water treatment, sewage disposal, sewage treatment systems and landfill.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

The *Debt Service Funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Projects Funds* account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

The *Permanent Trust Fund* accounts for the resources accumulated and restricted for perpetual care at the City’s cemetery.

The *Agency Funds* account for assets held for other governments and employees in an agency capacity.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation.

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Governmental Fund Financial Statements. Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when both measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty (60) days of the end of the current fiscal period. Property taxes, state shared revenue and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

All governmental and business-type activities and enterprise funds of the City follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds, are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City maintains a cash pool for substantially all of the City's governmental funds. Each fund's portion of the cash pool is displayed on the statement of net assets/balance sheet as "Cash and cash equivalents". The debt service and trust and agency funds cash resources are invested separately as required by law.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The City's investments during the year consisted of certificate of deposits with original maturities of more than three months.

2. Receivables and Payables

All receivables are reported at their gross value.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Property Taxes

The City's property taxes are levied each July 1 and December 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through February 28; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Mackinac County. Assessed values, as established annually by the City and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value.

Property taxes are recognized in the fiscal year in which they are levied.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

4. *Restricted Assets*

Certain resources are set aside for repayment of the City's DPW Enterprise Fund revenue bonds, general obligation note payable and capital improvements, and are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants.

5. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, water and wastewater system and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Because the City is considered a phase 3 government for GASB 34 implementation requirements, the City is not required to report infrastructure retrospectively; therefore, the City has elected to report infrastructure retrospectively to the extent that there is related outstanding debt. All future infrastructures will be capitalized.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	15
Buildings and building improvements	35-40
Water and wastewater system infrastructure	7-75
Machinery and equipment	3-40
Infrastructure	40

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

6. *Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

7. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department and line item. The legal level of budgetary control adopted by the City Council is the function level which is the level at which expenditures may not exceed appropriations. Budget amendments require the approval of the City Council.

B. Excess of Expenditures Over Appropriations in Budgetary Funds

P.A. 621 of 1978 as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on the functional basis. The approved budgets of the City for the budgetary funds were adopted at the function level for the General Fund and each special revenue fund.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General government	\$ 341,092	\$ 436,722	\$ 95,630
Public Safety	557,705	628,136	70,431
Transfers out	255,225	273,431	18,206

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of March 31, 2005:

Statement of Net Assets

Cash and cash equivalents	\$ 551,439
Investments	30,000
Restricted cash	360,432
Restricted investments	<u>286,791</u>

Total Statement of Net Assets	1,228,662
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Statement of Fiduciary Net Assets

Cash and cash equivalents	<u>3,190</u>
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Total	<u>\$ 1,231,852</u>
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At year end, the carrying amount of deposits was \$1,231,852. The bank balance was \$1,310,236. Of the bank balance, \$330,617 was covered by Federal Depository Insurance Corporation (FDIC). The remaining balance of \$979,619 was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The City's Department of Public Works (DPW) Board has designated certain amounts be set aside for future improvements. As of March 31, 2005 the DPW has used \$159,213 of these restricted amounts for general operating expenses.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

B. Receivables

The composition of receivables is as follows as of March 31, 2005:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts receivable	\$ 6,180	\$ 129,714
Taxes receivable	104,721	-
Due from other governmental units	14,963	-
Impact fees due within one year	-	18,000
Impact fees due in greater than one year	<u>-</u>	<u>246,082</u>
Total receivables	<u>\$ 125,864</u>	<u>\$ 393,796</u>

C. Capital assets

Capital assets activity was as follows for the year ended March 31, 2005:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated – land	\$ 18,180	\$ -	\$ -	\$ 18,180
Capital assets being depreciated				
Buildings	5,158,206	51,083	-	5,209,289
Equipment	620,308	7,000	-	627,308
Infrastructure	<u>1,252,589</u>	<u>-</u>	<u>-</u>	<u>1,252,589</u>
Total capital assets being depreciated	<u>7,031,103</u>	<u>58,083</u>	<u>-</u>	<u>7,089,186</u>
Less accumulated depreciation on				
Buildings	(1,097,135)	(128,955)	-	(1,226,090)
Equipment	(95,734)	(36,027)	-	(131,761)
Infrastructure	<u>(156,574)</u>	<u>(31,315)</u>	<u>-</u>	<u>(187,889)</u>
Total accumulated depreciation	<u>(1,349,443)</u>	<u>(196,297)</u>	<u>-</u>	<u>(1,545,740)</u>
Total capital assets being depreciated, net	<u>5,681,660</u>	<u>(138,214)</u>	<u>-</u>	<u>5,543,446</u>
Governmental activities capital assets, net	<u>\$ 5,699,840</u>	<u>\$ (138,214)</u>	<u>\$ -</u>	<u>\$ 5,561,626</u>

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets being depreciated				
Buildings	\$ 1,100,001	\$ -	\$ -	\$ 1,100,001
Water and sewer system	18,728,263	-	-	18,728,263
Machinery and equipment	<u>2,890,910</u>	<u>99,340</u>	<u>(246)</u>	<u>2,990,004</u>
Total capital assets being depreciated	<u>22,719,174</u>	<u>99,340</u>	<u>(246)</u>	<u>22,818,268</u>
Less accumulated depreciation for				
Buildings	(381,475)	(31,374)	-	(412,849)
Water and sewer system	(6,969,195)	(469,300)	-	(7,438,495)
Machinery and equipment	<u>(1,597,478)</u>	<u>(144,194)</u>	<u>246</u>	<u>(1,741,426)</u>
Total accumulated depreciation	<u>(8,948,148)</u>	<u>(644,868)</u>	<u>246</u>	<u>(9,592,770)</u>
Business-type activities capital assets, net	<u>\$ 13,771,026</u>	<u>\$ (545,528)</u>	<u>\$ -</u>	<u>\$ 13,225,498</u>

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities	
General government	\$ 68,311
Public safety	68,940
Public works	35,286
Health and welfare	6,000
Recreation and culture	<u>17,760</u>
Total depreciation expense – governmental activities	<u>\$ 196,297</u>
Business-type activities	
Water	\$ 257,466
Sewer	260,206
Landfill	<u>127,196</u>
Total depreciation expense – business-type activities	<u>\$ 644,868</u>

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

D. Accounts Payable and Accrued Expenses

The composition of accounts payable and accrued expenses is as follows at March 31, 2005:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts payable	\$ 44,584	\$ 163,193
Accrued expenses	<u>8,335</u>	<u>10,268</u>
Total accounts payables and accrued expenses	<u>\$ 52,919</u>	<u>\$ 173,461</u>

E. Interfund Receivables, Payables and Transfers

Interfund balances consisted of the following as of March 31, 2005:

	<u>Payable fund</u>		
<u>Receivable fund</u>	<u>General Fund</u>	<u>DPW</u>	<u>Total</u>
General Fund	\$ -	\$ 18,660	\$ 18,660
DPW	9,000	-	9,000
Nonmajor governmental fund	<u>1,262</u>	<u>-</u>	<u>1,262</u>
Total	<u>\$ 10,262</u>	<u>\$ 18,660</u>	<u>\$ 28,922</u>
	<u>Transfers in</u>		
<u>Transfers out</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
General Fund	\$ -	\$ 273,431	\$ 273,431
Nonmajor governmental funds	<u>2,213</u>	<u>118,089</u>	<u>120,302</u>
Total	<u>\$ 2,213</u>	<u>\$ 391,520</u>	<u>\$ 393,733</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Long-term Debt

A summary of long-term debt and transactions related thereto is as follows for the year ended March 31, 2005:

	Balance April 1, 2004	Additions	(Reductions)	Balance March 31, 2005	Due Within 1 Year
Governmental activities					
Fire truck installment loan payable to National City Bank due in annual installments of \$41,830 including interest charged at 2.99% through fiscal 2014.	\$ 336,286	\$ -	\$ (32,333)	\$ 303,953	\$ 31,830
1997 Building Authority Bonds payable to First National Bank of St. Ignace, due in annual principal installments ranging from \$55,000 to \$75,000, interest ranging from 4.75% - 4.95% due in semi-annual installments through fiscal 2010.	375,000	-	(55,000)	320,000	55,000

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

	<u>Balance April 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance March 31, 2005</u>	<u>Due Within 1 Year</u>
1999 Michigan Transportation Fund Bonds payable to Michigan Transportation Fund, due in annual principal installments ranging from \$15,000 to \$20,000, interest ranging from 4.7% - 5.1% due in semi-annual installments through fiscal 2011.	\$ 125,000	\$ -	\$ (15,000)	\$ 110,000	\$ 15,000
Accrued compensated absences.	18,997	268	-	19,265	-
Note payable to State of Michigan repaid during fiscal 2005.	<u>120,825</u>	<u>-</u>	<u>(120,825)</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>976,108</u>	<u>268</u>	<u>(223,158)</u>	<u>753,218</u>	<u>101,830</u>
Business-type activities					
5.5% revenue bonds payable to North Country Bank & Trust, due in annual principal installments ranging from \$55,000 to \$215,000, interest due in semi-annual installments through fiscal 2028.	<u>3,155,000</u>	<u>-</u>	<u>(60,000)</u>	<u>3,095,000</u>	<u>135,000</u>
Total long-term debt	<u>\$4,131,108</u>	<u>\$ 268</u>	<u>\$ (283,158)</u>	<u>\$3,848,218</u>	<u>\$ 236,830</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements to maturity for the above obligations except for the liability for accrued compensated absences is as follows:

	Governmental activities		Business-type activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 101,830	\$ 29,319	\$ 135,000	\$ 166,650
2007	107,877	24,813	75,000	162,800
2008	118,959	19,865	75,000	158,675
2009	120,076	14,589	80,000	154,550
2010	131,230	8,981	85,000	150,150
2011-2015	153,981	10,592	500,000	675,125
2016-2020	-	-	665,000	520,300
2021-2025	-	-	875,000	316,250
2026-2028	-	-	605,000	65,450
	<u>\$ 733,953</u>	<u>\$ 108,159</u>	<u>\$3,095,000</u>	<u>\$2,369,950</u>

Total interest expense for the City for the year was \$203,064.

G. Restatements

As of and for the year ended March 31, 2005, the City implemented the following Governmental Accounting Standards Board pronouncements:

Statements

No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*

No. 37 – *Basic Financial Statement – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*

No. 38 – *Certain Financial Statement Note Disclosures*

Interpretation

No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The City was required to implement the new requirements as of and for the year ended March 31, 2005.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

The more significant of the changes required by the new standards include:

- Management's discussion and analysis
- Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting.
 - Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
 - Schedules to reconcile the fund financial statements to the government-wide financial statements;
 - Notes to the basic financial statement

As a result of implementing these pronouncements for the year ended March 31, 2005, the following restatements were made to beginning net asset accounts in the government-wide financial statements.

Beginning net assets for governmental activities was determined as follows:

Fund balances of general, special revenue, debt service and capital project funds as of March 31, 2004	\$ 972,865
Add: Trust Fund reclassified to a Permanent Trust Fund	88,302
Add: Governmental capital assets as of March 31, 2004	7,049,283
Deduct: Accumulated depreciation as of March 31, 2004 on governmental capital assets	(1,349,443)
Deduct: General obligations bonds payable as of March 31, 2004	(957,111)
Deduct: Accrued interest payable on debt as of March 31, 2004	(11,380)
Deduct: Governmental compensated absences Payable as of March 31, 2004	<u>(18,997)</u>
Governmental activities net assets, restated, as of April 1, 2004	<u>\$5,773,519</u>

Beginning net assets of the enterprise funds were derived by aggregating the previously reported retained earnings and contributed capital of those funds.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

4. OTHER INFORMATION

Risk Management and Litigation

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

CITY OF MACKINAC ISLAND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Legislative				
City council	\$ 40,950	\$ 40,950	\$ 14,120	\$ 26,830
General government				
Elections	4,300	4,300	3,421	879
Professional services	114,500	114,500	229,221	(114,721)
Assessor	35,525	35,525	35,505	20
Clerk	33,650	33,650	34,173	(523)
Treasurer	37,767	37,767	35,527	2,240
Board of review	550	550	-	550
City hall and other property	114,800	114,800	98,875	15,925
Total general government	341,092	341,092	436,722	(95,630)
Public safety				
Police department	415,280	415,280	478,110	(62,830)
Fire department	59,025	50,025	45,898	4,127
Ambulance	30,000	30,000	17,984	12,016
Traffic greeters	40,000	40,000	44,018	(4,018)
Zoning	500	500	-	500
Planning commission	6,900	6,900	27,126	(20,226)
Medical center	15,000	15,000	15,000	-
Total public safety	566,705	557,705	628,136	(70,431)
Public works				
Street lighting	14,000	14,000	11,397	2,603
Other	188,300	197,300	161,420	35,880
Total public works	202,300	211,300	172,817	38,483
Culture and recreation				
Recreation department	43,521	43,521	38,600	4,921
Parks	37,500	37,500	17,377	20,123
Total culture and recreation	81,021	81,021	55,977	25,044

Continued...

CITY OF MACKINAC ISLAND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Other functions				
Fly control	\$ 5,050	\$ 5,050	\$ 4,609	\$ 441
Insurance	151,800	151,800	173,906	(22,106)
Other	63,742	63,742	31,000	32,742
Total other functions	220,592	220,592	209,515	11,077
Debt Service				
Principal	42,000	-	-	-
Total expenditures	1,494,660	1,452,660	1,517,287	(64,627)
Other financing uses				
Transfers out	256,225	255,225	273,431	(18,206)
Total expenditures and other financing uses	\$ 1,750,885	\$ 1,707,885	\$ 1,790,718	\$ (82,833)
				Concluded

CITY OF MACKINAC ISLAND
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

MARCH 31, 2005

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Trust Funds	Total
ASSETS					
Cash and cash equivalents	\$ 6,400	\$ -	\$ 417,627	\$ 93,425	\$ 517,452
Investments	-	-	30,000	-	30,000
Taxes receivable	-	3,133	2,107	-	5,240
Due from other funds	1,262	-	-	-	1,262
Due from other governmental units	8,880	-	-	-	8,880
Restricted cash and cash equivalents	16,592	111,146	-	-	127,738
Restricted investments	75,000	-	50,000	-	125,000
Total assets	\$ 108,134	\$ 114,279	\$ 499,734	\$ 93,425	\$ 815,572
LIABILITIES AND FUND BALANCES					
Liabilities					
Accrued expenses	\$ 1,262	\$ -	\$ -	\$ -	\$ 1,262
Fund balances					
Reserved					
Capital outlay	91,592	-	-	-	91,592
Debt service	-	114,279	-	-	114,279
Perpetual care	-	-	-	93,425	93,425
Unreserved					
Designated	-	-	485,682	-	485,682
Undesignated	15,280	-	14,052	-	29,332
Total fund balances	106,872	114,279	499,734	93,425	814,310
Total liabilities and fund balances	\$ 108,134	\$ 114,279	\$ 499,734	\$ 93,425	\$ 815,572

CITY OF MACKINAC ISLAND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED MARCH 31, 2005

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Permanent Trust Funds	Total
Revenues					
Taxes	\$ -	\$ 44,621	\$ 16,161	\$ -	\$ 60,782
Federal revenue	200	-	51,083	-	51,283
State revenue	154,206	-	-	-	154,206
Charges for services	20,320	-	-	2,600	22,920
Fines and forfeits	6,294	-	-	-	6,294
Interest and dividends	1,873	3,167	12,244	2,523	19,807
Contributions	31,660	-	-	-	31,660
Miscellaneous	2,250	-	-	-	2,250
Total revenues	216,803	47,788	79,488	5,123	349,202
Expenditures					
General government	13,609	-	-	-	13,609
Public works	364,023	-	-	-	364,023
Culture and recreation	53,357	-	-	-	53,357
Capital improvements	-	-	75,681	-	75,681
Debt service					
Principal payments	-	223,158	-	-	223,158
Interest and paying agent fees	-	36,961	-	-	36,961
Total expenditures	430,989	260,119	75,681	-	766,789
Revenues over (under) expenditures	(214,186)	(212,331)	3,807	5,123	(417,587)
Other financing sources (uses)					
Transfers in	215,149	162,636	13,735	-	391,520
Transfers out	(18,093)	-	(102,209)	-	(120,302)
Total other financing (uses) sources	197,056	162,636	(88,474)	-	271,218
Net change in fund balances	(17,130)	(49,695)	(84,667)	5,123	(146,369)
Fund balances, beginning of year	124,002	163,974	584,401	88,302	960,679
Fund balances, end of year	\$ 106,872	\$ 114,279	\$ 499,734	\$ 93,425	\$ 814,310

CITY OF MACKINAC ISLAND

COMBINING BALANCE SHEET SPECIAL REVENUE FUNDS

MARCH 31, 2005

	Major Streets	Local Streets	Library
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ 6,400
Due from other funds	-	-	335
Due from other governmental units	5,924	2,956	-
Restricted cash and cash equivalents	-	-	16,592
Restricted investments	-	-	75,000
Total assets	\$ 5,924	\$ 2,956	\$ 98,327
LIABILITIES AND FUND BALANCES			
Liabilities			
Accrued expenses	\$ -	\$ -	\$ 335
Fund balances			
Reserved - capital outlay	-	-	91,592
Unreserved - undesignated	5,924	2,956	6,400
Total fund balances	5,924	2,956	97,992
Total liabilities and fund balances	\$ 5,924	\$ 2,956	\$ 98,327

<u>Cemetery</u>	<u>Building Department</u>	<u>Total</u>
\$ -	\$ -	\$ 6,400
-	927	1,262
-	-	8,880
-	-	16,592
-	-	75,000
<u>\$ -</u>	<u>\$ 927</u>	<u>\$ 108,134</u>
\$ -	\$ 927	\$ 1,262
-	-	91,592
-	-	15,280
-	-	106,872
<u>\$ -</u>	<u>\$ 927</u>	<u>\$ 108,134</u>

CITY OF MACKINAC ISLAND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED MARCH 31, 2005

	Major Streets	Local Streets	Library
Revenues			
State revenue	\$ 130,311	\$ 19,239	\$ 4,656
Federal revenue	-	-	200
Charges for services	-	-	7,644
Fines and forfeits	-	-	6,294
Interest and dividends	-	-	1,873
Contributions	-	-	31,660
Miscellaneous	-	-	750
Total revenues	130,311	19,239	53,077
Expenditures			
General government	-	-	-
Public works	178,496	110,256	-
Culture and recreation	-	-	53,357
Total expenditures	178,496	110,256	53,357
Revenues under expenditures	(48,185)	(91,017)	(280)
Other financing sources (uses)			
Transfers in	44,628	93,973	1,844
Transfers out	(18,093)	-	-
Total other financing sources (uses)	26,535	93,973	1,844
Net change in fund balances	(21,650)	2,956	1,564
Fund balances, beginning of year	27,574	-	96,428
Fund balances, end of year	\$ 5,924	\$ 2,956	\$ 97,992

Cemetery	Building Department	Total
\$ -	\$ -	\$ 154,206
-	-	200
2,000	10,676	20,320
-	-	6,294
-	-	1,873
-	-	31,660
1,500	-	2,250
3,500	10,676	216,803
13,609	-	13,609
-	75,271	364,023
-	-	53,357
13,609	75,271	430,989
(10,109)	(64,595)	(214,186)
10,109	64,595	215,149
-	-	(18,093)
10,109	64,595	197,056
-	-	(17,130)
-	-	124,002
\$ -	\$ -	\$ 106,872

CITY OF MACKINAC ISLAND

COMBINING BALANCE SHEET DEBT SERVICE FUNDS

MARCH 31, 2005

	1997 Building Authority Bonds	1999 Michigan Transportation Fund Bond	1999 State Infrastructure Bank Loan	2004 Fire Truck	Total
ASSETS					
Taxes receivable	\$ 3,133	\$ -	\$ -	\$ -	\$ 3,133
Restricted cash and cash equivalents	111,146	-	-	-	111,146
Total assets					
(equal to reserved fund balance)	\$ 114,279	\$ -	\$ -	\$ -	\$ 114,279

CITY OF MACKINAC ISLAND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES DEBT SERVICE FUNDS

FOR THE YEAR ENDED MARCH 31, 2005

	1997 Building Authority Bonds	1999 Michigan Transportation Fund Bond	1999 State Infrastructure Bank Loan	2004 Fire Truck	Total
Revenues					
Taxes	\$ 44,560	\$ -	\$ 61	\$ -	\$ 44,621
Interest and dividends	2,940	-	227	-	3,167
Total revenues	47,500	-	288	-	47,788
Expenditures					
Principal payments	55,000	15,000	120,825	32,333	223,158
Interest and paying agent fees	16,821	3,093	4,833	12,214	36,961
Total expenditures	71,821	18,093	125,658	44,547	260,119
Revenues under expenditures	(24,321)	(18,093)	(125,370)	(44,547)	(212,331)
Other financing sources					
Transfers in	-	18,093	99,996	44,547	162,636
Net change in fund balance	(24,321)	-	(25,374)	-	(49,695)
Fund balances, beginning of year	138,600	-	25,374	-	163,974
Fund balances, end of year	\$ 114,279	\$ -	\$ -	\$ -	\$ 114,279

CITY OF MACKINAC ISLAND

COMBINING BALANCE SHEET CAPITAL PROJECTS FUNDS

MARCH 31, 2005

	<u>Capital Outlay</u>	<u>Hoban Road Project</u>	<u>Court House Project</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 417,627	\$ -	\$ -	\$ 417,627
Investments	30,000	-	-	30,000
Taxes receivable	2,107	-	-	2,107
Restricted investments	50,000	-	-	50,000
Total assets	<u>\$ 499,734</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 499,734</u>
FUND BALANCES				
Unreserved				
Designated	\$ 485,682	\$ -	\$ -	\$ 485,682
Undesignated	14,052	-	-	14,052
Total fund balances	<u>\$ 499,734</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 499,734</u>

CITY OF MACKINAC ISLAND

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES CAPITAL PROJECTS FUNDS

FOR THE YEAR ENDED MARCH 31, 2005

	Capital Outlay	Hoban Road Project	Court House Project	Total
Revenues				
Taxes	\$ 16,161	\$ -	\$ -	\$ 16,161
Federal revenue	-	-	51,083	51,083
Interest and dividends	11,258	986	-	12,244
Total revenues	27,419	986	51,083	79,488
Expenditures				
Capital improvements	24,598	-	51,083	75,681
Revenues over expenditures	2,821	986	-	3,807
Other financing sources (uses)				
Transfer in	13,735	-	-	13,735
Transfer out	-	(102,209)	-	(102,209)
Total other financing sources (uses)	13,735	(102,209)	-	(88,474)
Net change in fund balance	16,556	(101,223)	-	(84,667)
Fund balances, beginning of year	483,178	101,223	-	584,401
Fund balances, end of year	\$ 499,734	\$ -	\$ -	\$ 499,734

CITY OF MACKINAC ISLAND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES TAX COLLECTION AGENCY FUND

FOR THE YEAR ENDED MARCH 31, 2005

	Balance April 1, 2004	Additions	(Deductions)	Balance March 31, 2005
ASSETS				
Cash and cash equivalents	<u>\$ 20,631</u>	<u>\$ 4,239,959</u>	<u>\$ (4,257,400)</u>	<u>\$ 3,190</u>
LIABILITIES				
Due to other funds	\$ 20,631	\$ 1,246,641	\$ (1,267,272)	\$ -
Due to other governmental units	<u>-</u>	<u>2,993,318</u>	<u>(2,990,128)</u>	<u>3,190</u>
Total liabilities	<u><u>\$ 20,631</u></u>	<u><u>\$ 4,239,959</u></u>	<u><u>\$ (4,257,400)</u></u>	<u><u>\$ 3,190</u></u>

CITY OF MACKINAC ISLAND

SCHEDULE OF INDEBTEDNESS

MARCH 31, 2005

	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount Outstanding March 31, 2005</u>	<u>Interest Payable if Held to Maturity</u>
Governmental activities bonds					
1997 Building Authority Bond	\$ 630,000	4.75%	6/01/05	\$ 55,000	\$ 14,236
Payments due		4.80	6/01/06	60,000	11,490
Principal and interest - June 1		4.85	6/01/07	65,000	8,474
Interest only - December 1		4.90	6/01/08	65,000	5,305
		4.95	6/01/09	75,000	1,856
				<u>320,000</u>	<u>\$ 41,361</u>
 1999 Michigan Transportation Fund Bond	 170,000	 4.70%	 08/01/05	 \$ 15,000	 \$ 5,083
Payments due		4.80	08/01/06	15,000	4,370
Principal and interest - August 1		4.90	08/01/07	20,000	3,520
Interest only - February 1		5.00	08/01/08	20,000	2,530
		5.05	08/01/09	20,000	1,525
		5.10	08/01/10	20,000	510
				<u>110,000</u>	<u>\$ 17,538</u>
 Total governmental activities bonded indebtedness				 <u>\$ 430,000</u>	

Continued...

CITY OF MACKINAC ISLAND

SCHEDULE OF INDEBTEDNESS

MARCH 31, 2005

	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount Outstanding March 31, 2005</u>	<u>Interest Payable if Held to Maturity</u>
Business-type activities					
Sanitary Sewage Disposal and Water	\$ 3,350,000	5.50%	03/01/06	\$ 135,000	\$ 166,650
Supply System Revenue Refunding		5.50	03/01/07	75,000	162,800
Bonds, Series 1999		5.50	03/01/08	75,000	158,675
Payments due		5.50	03/01/09	80,000	154,550
Principal and interest - March 1		5.50	03/01/10	85,000	150,150
Interest only - September 1		5.50	03/01/11	90,000	145,475
		5.50	03/01/12	95,000	140,525
		5.50	03/01/13	100,000	135,300
		5.50	03/01/14	105,000	129,800
		5.50	03/01/15	110,000	124,025
		5.50	03/01/16	120,000	117,975
		5.50	03/01/17	125,000	111,375
		5.50	03/01/18	135,000	104,500
		5.50	03/01/19	140,000	97,075
		5.50	03/01/20	145,000	89,375
		5.50	03/01/21	155,000	81,400
		5.50	03/01/22	165,000	72,875
		5.50	03/01/23	175,000	63,800
		5.50	03/01/24	185,000	54,175
		5.50	03/01/25	195,000	44,000
		5.50	03/01/26	205,000	33,275
		5.50	03/01/27	215,000	22,000
		5.50	03/01/28	185,000	10,175
Total business-type activities bonded indebtedness				<u>3,095,000</u>	<u>\$ 2,369,950</u>
Total bonded indebtedness				<u>\$ 3,525,000</u>	
Governmental activities notes payable					
2003 Fire truck loan		2.99%	10/31/05	\$ 31,830	\$ 10,000
		2.99	10/31/06	32,877	8,953
Principal and interest - October 31		2.99	10/31/07	33,959	7,871
Interest only - January 31		2.99	10/31/08	35,076	6,754
		2.99	10/31/09	36,230	5,600
		2.99	10/31/10	37,422	4,408
		2.99	10/31/11	38,653	3,177
		2.99	10/31/12	39,925	1,905
		2.99	10/31/13	17,981	592
				<u>\$ 303,953</u>	<u>\$ 49,260</u>

Concluded